



**STATE INVESTMENT BOARD  
BOARD ADOPTED POLICIES**

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**POLICY NUMBER:** 2.65.300

**EFFECTIVE DATE:** 11/15/01

**TITLE:** Emergency Reserve Fund

**SUPERSEDES:** 10/25/01

**BOARD ADOPTION:** 11/15/01

**APPROVED:** *James F. Parker*

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**PURPOSE:**

This document outlines the investment policy and objectives for the state of Washington Emergency Reserve Fund managed by the State Investment Board (SIB).

**POLICY:**

**Standard of Care**

Under RCW 43.33A.030, trusteeship of the Emergency Reserve Fund is vested in the voting members of the Board. The Legislature has established a standard of care for investment of these funds in RCW 43.33A.140, which requires the judgement and care of a prudent investor in a like capacity. Additionally, the Board and its staff must comply with other state laws, such as the Ethics in Public Service Act, Chapter 42.52 RCW, as it makes its investment decisions and seeks to meet the investment objectives listed below.

**Investment Objectives**

This fund has been established to provide the state of Washington a reserve fund for difficult budget times. This "rainy day" fund was created under the guidelines of State Proposition 601 and is subject to change by the Legislature. The monies for the fund are managed by the Office of Financial Management and overseen by the budget committees of the House and Senate for the state. It is the desire of the current Legislature to have the fund grow to a sufficient size to protect the state from difficult times, and eventually allow income and gains to be drawn to fund specific projects.

In accordance with RCW 43.33A.110, the portfolio is to be managed to achieve a maximum return at a prudent level of risk. Based on this requirement and the unique nature of this fund, the order of the objectives shall be:

1. Adequate liquidity in times of budget need.

2. Safety of principal over long-term.
3. Capital growth.
4. Preservation of the public's trust.

### **Investment Approach**

This fund has the unique requirement to be liquid during difficult budget and, most likely, economic times, while also being invested to obtain capital growth. These somewhat conflicting objectives will provide tension to the overall investment program.

The investment approach will be to establish asset allocation targets for the portfolio and then to periodically rebalance to those targets. The SIB will not attempt to predict or anticipate difficult budget times nor attempt to significantly alter the asset allocation plan.

### **Investment Performance Objectives**

Performance of the investment portfolios shall be judged relative to the strategic objectives and the investment approach.

### **Portfolio Constraints**

1. In accordance with RCW 43.33A.110, all assets under management by the SIB are to be invested to maximize return at a prudent level of risk.
2. In accordance with the state constitution, the fund can only be invested in government and government agency instruments (U.S. and/or non-U.S. government).
3. The maximum maturity for any investment instrument is ten years.
4. The portfolio's duration cannot exceed four years.

### **Asset Allocation**

The asset allocation policy will be reviewed every three years, or sooner if there are significant changes in the purpose or the laws governing the fund. Market conditions, budget requirements and potential surpluses are dynamic and fluid, not static; therefore, SIB staff will review the asset allocation of the investment portfolio each quarter with the Board. The Board has delegated to the executive director the authority to rebalance the asset allocation to fall within Board adopted ranges or targets. The portfolio will be rebalanced across asset classes when market values of the assets fall outside the policy ranges. Rebalancing will be accomplished first using any available cash flow, and then through the

reallocation of assets across asset classes. The timing of the rebalancing will be based upon market opportunities and the consideration of transaction costs, and, therefore, need not occur immediately.

**Emergency Reserve Fund Asset Allocation:**

Asset Allocation	Maximum Range	Minimum Range
Fixed Income – 91 days to 10 years	50 percent	0 percent
Cash – 90 days or less	100 percent	0 percent

The above policy ranges are long-term and may deviate in the short-term as a result of funding schedules and market movements.

**Asset Class Structure**

The asset class structure is established by the Board with wide guidelines for staff to move assets in order to achieve the fund's overall objectives.

**Fixed Income**

The fixed income portfolio's structure will vary depending upon the attractiveness of different instrument and maturities over time. The portfolio will strive to have a reasonable range of maturities and avoid a barbell structure.

**Permissible Investments**

1. *U.S. Treasuries and Government Agencies.*
2. *Investment-grade Non-U.S. Sovereigns, Non-U.S. Government Agencies, and Non-U.S. Local Governments.*
3. *Short-term Investment Funds (STIF) that invest strictly in U.S. Government or Government Agency instruments, including Repurchase Agreements for U.S. Government and Agency instruments.*
4. Cash collateral for security lending and collateral for repurchase agreements is restricted to U.S. Government and Government agency securities.

**RESPONSIBILITIES:**

State Investment Board - Responsible for approving investment policies and monitoring the asset allocation mix.

Administrative Committee - Responsible for reviewing and recommending asset allocation policies to the Board.

Public Markets Committee - Responsible for reviewing the fixed income portfolio and recommending adjustment to style or objectives, or other investment policies for the fund. Responsible for reviewing SIB staff investment management guidelines.

SIB Staff - Responsible for recommending asset allocation and investment policies to the appropriate Committees of the Board, implementing the policies, and reporting to the Committees and the Board.